



Securities Exchanges Guarantee Corporation

ANNUAL REPORT

2080

*Securities Exchanges Guarantee Corporation Limited ABN 19 008 626 793
(a company limited by guarantee)
Trustee of the National Guarantee Fund ABN 69 546 559 493*

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MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the National Guarantee Fund (NGF) which is a compensation scheme available to the operators of licensed financial markets who apply to be members of the SEGC. The Corporations Act requires ASX Limited (ASX) to be a member of the SEGC and ASX has been the only member since the NGF was created in 1987. As at 30 June 2010 the net assets of the NGF were \$111.0 million (compared to \$104.9 million as at 30 June 2009).

The core function of the NGF is to provide compensation to meet certain types of claims arising from dealings with Participants of ASX and, in limited circumstances, Participants of ASX Clear Pty Limited (formerly called Australian Clearing House Pty Ltd) (ASX Clear) in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act 2001 (Cth).

In the event that the amount of the NGF falls below the "Minimum Amount" set under s889I of the Corporations Act (the Minimum Amount is currently set at \$76 million) SEGC has a number of measures at its disposal including discretion to levy the market operator, ASX, or its Market Participants. The legislation provides a cap on the amount of any levy.

It should be noted that levies have not been imposed since the inception of the NGF.

The Minimum Amount and other measures available to SEGC to manage financial risk are explained in detail in the report.

A significant number of claims have been considered and determined by SEGC during the financial year. Most of these claims related to the collapse of the Opes Prime Stockbroking group in March 2008. Further commentary in relation to claims is included later in the report.

I wish to thank Michael Sharpe AO, who retired from the Board on 30 June 2010, after twelve years as a director of SEGC. Michael's contribution is greatly appreciated. In July 2010 we welcomed Ian McGaw to the SEGC Board. Details of Ian's background are included later in the report.



Clive Batrouney
Chairman

OVERVIEW OF SEGC AND THE NATIONAL GUARANTEE FUND

SEGC is responsible for administering the NGF and operates in accordance with Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. The assets of the NGF are the property of SEGC but are held on trust for the purposes set out in the legislation.

The SEGC Board is made up of directors experienced in matters involving the securities industry. The sole member of SEGC is ASX Limited (ASX).

What is the NGF?

The NGF is a compensation fund available to meet certain types of claims arising from dealings with Participants of ASX and, in limited circumstances, Participants of ASX Clear (Dealers). It was established by the *Australian Stock Exchange and National Guarantee Fund Act 1987*, which also created ASX as a national stock exchange. When the six state stock exchanges were merged under that Act, the assets of the fidelity funds of those state exchanges were merged to form the NGF.

Investment earnings are the major source of income for the NGF. The earnings of the NGF are income tax exempt.

At 30 June 2010, the net assets of the NGF were \$111.0 million. This compares with \$104.9 million at the end of the previous financial year.

The net assets of the NGF reflect variations in earnings, the amount paid to ASX's Financial Industry Development Account, the net amount paid in respect of claims (after recoveries), changes in provisions for claims and administration costs.

What claims can be made on the NGF?

The claims provisions are set out in Division 4 of Part 7.5 of the Corporations Regulations. The protection provided by the NGF is only available in relation to the activities of Dealers (as defined above).

The NGF covers only investor protection claims.

There are four subdivisions of Division 4 of Part 7.5 of the Corporations Regulations which set out the types of investor protection claims that clients of Dealers may make on the NGF in certain circumstances. They are for:

- completion of sales and purchases of quoted securities entered into by a Dealer on ASX's equities and debt markets where the transaction is required to be reported to ASX (Subdivision 4.3). The Dealer may have failed to provide to the client, after settlement, the securities purchased or the proceeds of sale, or may have failed to complete a transaction because the Dealer was suspended by ASX or by ASX Clear;
- loss that results if a Dealer transfers marketable or certain other securities without authority (Subdivision 4.7);
- loss that results if a Dealer cancels or fails to cancel a certificate of title to quoted securities contrary to the provisions of the operating rules of ASX Settlement Pty Limited (formerly called ASX Settlement and Transfer Corporation Pty Limited) (Subdivision 4.8);
- loss that results if a Dealer becomes insolvent and fails to meet its obligations in respect of property (usually money or securities) that had been entrusted to it in the course of, or in connection with, its business of dealing in securities, up to a statutory maximum per Dealer of 15% of the 'Minimum Amount' of the NGF (Subdivision 4.9). Based on the current Minimum Amount, this cap would be \$11.4 million. (See later for an explanation of the 'Minimum Amount'.)

Further information about claims made is provided in the Claims Report section.

Claims which cannot be made on the NGF

Claims cannot be made on the NGF unless they fall within one of the categories referred to earlier. Examples of claims which cannot be made are claims:

- for loss arising from investment decisions, or from relying on investment advice given by a Dealer;
- for loss if a Dealer fails to act on instructions to buy or to sell;
- for money lent to a Dealer which has not been repaid;
- in respect of conduct by an entity other than the specific entity which is the Dealer; and
- in respect of alleged unauthorised withdrawal or misappropriation by the Dealer of money in a client's account or held on a client's behalf, unless the circumstances are such that the loss may be claimed under one of the specific categories in the legislation.

Some people are not entitled to make certain claims under Subdivision 4.7 or Subdivision 4.9. These include the Dealer concerned, its officers and their spouses and relatives.

Claims in relation to exchange traded derivatives

The contract completion provisions of Subdivision 4.3 referred to above in relation to ASX's securities markets do not apply to trading of individual derivatives contracts (other than ASX traded warrants).

However, the NGF does provide the following protection to clients of Dealers who trade on the ASX derivatives market.

Firstly, if an exchange traded option over quoted securities is exercised, the resulting purchase and sale will generally be covered by the contract completion provisions of Subdivision 4.3 discussed above.

Secondly, if a client has entrusted property to a Dealer in the course of dealing in exchange traded options, the NGF provides protection against loss of that property in accordance with the provisions of Subdivision 4.9, also discussed above.

The NGF does not provide protection in relation to futures. The ASX Supplemental Compensation Fund covers claims in relation to money or property entrusted to a participant of ASX in respect of actual or proposed dealings in futures.

Reduction of claims

SEGC may reduce the amount of compensation payable to a claimant:

- by reference to the extent to which the claimant was responsible for causing the loss; and
- if a claimant has, without the written consent of SEGC, adversely affected SEGC's right to be subrogated to any of the claimant's rights and remedies and the claimant received a benefit for assigning its rights or remedies.

The 'Minimum Amount' of the NGF

Under the Corporations Act the SEGC Board may, with the approval of the Government Minister responsible for the Corporations Act, determine that a particular amount (referred to in the legislation as the 'Minimum Amount') is the amount needed to maintain the NGF at a viable level to meet claims and administration costs of SEGC and the NGF.

In 1987 when the NGF was formed, the initial Minimum Amount under the legislation was \$15 million. Because changes occur in the securities industry and new products and services are developed, the SEGC Board has periodically reviewed the Minimum Amount on actuarial advice. On 31 March 2005 the Minimum Amount was set at \$76 million and still remains at that amount. As at the date of this report, an actuarial review is being conducted as part of the SEGC Board's regular review of the Minimum Amount. The actuarial review has not yet been completed.

SEGC liaises with ASX on new products and monitors developments in the regulatory environment so that potential changes to the NGF's risk may be assessed.

If the amount in the NGF falls below the Minimum Amount, the Board has flexibility in managing the financial position of SEGC and the NGF as appropriate in the circumstances. For example:

- it may determine (with the Minister's approval) to adjust the 'Minimum Amount' of the NGF;
- it may take out insurance against liability in respect of claims on the NGF;
- it may pay claims in instalments and in the priority set out in the legislation;
- it may borrow (including from ASX) for the purpose of meeting a payment due out of the NGF; or

- it may raise funds for the NGF by imposing a levy on ASX or on all or a class of Participants of ASX.

If the NGF falls below the Minimum Amount, SEGC may determine in writing that ASX or all or a class of Participants of ASX must pay a levy. If a levy is imposed on the ASX then the ASX may determine in writing that Participants must pay a levy.

If SEGC does impose a levy, the total of all levies must not exceed 150% of the Minimum Amount in any financial year.

A levy is imposed under the Corporations (National Guarantee Fund) Levies Act.

The amount in the NGF has not fallen below the applicable Minimum Amount' since the NGF was formed and SEGC has not imposed any levies. SEGC has not needed to borrow to pay claims and has not taken out insurance against its liability to meet claims.

Financial Industry Development Account (FIDA)

The FIDA is a mechanism under the Corporations Act allowing the Minister to approve the use of excess funds in the NGF (funds in excess of the Minimum Amount') for the development of the financial industry. The Minister may approve in writing purposes which are primarily for the public benefit and not primarily to promote the profitability of the commercial operations of the market.

The FIDA is an account maintained by the market operator into which must be placed the approved funds. Funds in the FIDA can only be used by the market operator for the purposes approved under the Corporations Regulations by the Minister.

During the financial year \$1,930,196 was distributed to ASX's FIDA account. These funds were used by ASX for:

- (i) Investor Education Program
- (ii) Share Ownership Survey

BOARD OF DIRECTORS

The SEGC Board is responsible for overseeing the general operation of SEGC including determining claims and deciding upon the investment strategy for the management and investment of the NGF's assets. The experience and qualifications of each director is set out below.

Clive Batrouney, FAIM, Independent Non-Executive Director. Chairman since July 1998. Director since October 1997.

Director of Hansen Yuncken Pty Limited. Former Chairman of Telstra Super Pty Limited and Telstra Super Financial Planning Pty Limited. Former Joint Vice Chairman of Australian Stock Exchange Limited (1994-2002). Former Chairman of ANZ McCaughan Securities Limited, Australian Stock Exchange (Melbourne) Limited (1989-1991) and Australian Stock Exchange Limited Melbourne Advisory Board (1991-1994).

Susan Doyle, BA, Independent Non-Executive Director. Director since 1 January 2007. Member of the Future Fund Board of Guardians. Former Chairman of Australian Reward Investment Alliance (ARIA). Former Director of Aircruising Australia Ltd.

F. Allan McDonald, BEc, FCPA, FCIS, FAIM, Independent Non-Executive Director. Director since May 1993.

Non-Executive Chairman of Brookfield Multiplex Funds Management Limited (RE of the Multiplex Property Trust and the Multiplex SITES trust), Brookfield Multiplex Capital Management Limited (including its subsidiaries), Multiplex Acumen Vale Syndicate Limited, Brookfield Australia Funds Management Limited, Brookfield Multiplex Capital Securities Limited, Brookfield Multiplex Capital Investments Limited. Chairman of Ross Human Directions Limited. Chairman of Astro Japan Property Management Limited (RE of the Astro Japan Property Trust). Director of Billabong International Limited. Chairman of General Reinsurance Australia Limited.

Michael Sharpe, AO, BEc, Hon.DSc Econ (Sydney), FCA, Non-Executive Director. Director since July 1998. Retired as a Director on 30 June 2010.

Former Director of ASX Limited and former Chairman of the ASX Audit and Risk Committee.

Director of National Australia Trustees Limited. Mr Sharpe's 40-year career in the accounting profession culminated in his retirement as a partner of Coopers and Lybrand (now PricewaterhouseCoopers) in 1998. He has served as Chairman of the International Accounting Standards Committee, President of the Institute of Chartered Accountants in Australia, independent auditor of the Australian National Audit Office and as a member of the Takeovers Panel.

Peter Warne, BA, Non-Executive Director. Director since October 2006.

Appointed Director of ASX in July 2006. Prior to this he was a Director of SFE Corporation Limited from 2000.

Director of ASX Clear Pty Limited, ASX Clear (Futures) Pty Limited, ASX Clearing Corporation Limited, ASX Settlement Corporation Limited, Austraclear Limited and ASX Settlement Pty Limited. Member of the ASX Audit and Risk Committee and the Nomination and Remuneration Committee.

Chairman of Australian Leisure and Entertainment Property Management Limited. Deputy Chairman of Capital Markets CRC Limited. Director of Macquarie Group Limited, Macquarie Bank Limited, Next Financial Limited (owned by Wilson HTM Investment Group Limited), Securities Industry Research Centre of Asia Pacific (SIRCA) and Mosaic Risk Management Pty Limited. Director and Acting Chairman of WHK Group Limited. Chairman of St. Andrews Cathedral School Foundation. Member of the advisory board of the Australian Office of Financial Management. Member of the Compliance Committee of Wilson HTM.

Previously, Mr Warne was a director of Macquarie Capital Alliance group and an Executive Vice-President of Bankers Trust Australia Limited.

Ian McGaw, Non-Executive Director. Appointed as a Director on 1 July 2010.

Chairman of ASX Clear Pty Limited and ASX Settlement Pty Limited. Director of ASX Clear (Futures) Pty Limited, ASX Clearing Corporation Limited, ASX Settlement Corporation Limited and Austraclear Limited.

Previously, Mr McGaw was the Group Managing Director at the London Clearing House (now known as LCH Clearent Group).

Directors' Attendance at Meetings

Director	Meetings attended
CM Batrouney	7/7
S Doyle	7/7
FA McDonald	7/7
MJ Sharpe	7/7
P Warne	7/7

CORPORATE GOVERNANCE

The Board of SEGC consists of five non-executive directors. ASX, as the sole member of SEGC, appoints two directors and those directors appoint three independent directors who:

- are not a partner, director, officer or employee of a participant of ASX;
- are not a director, officer or employee of ASX or a body corporate that operates another financial market, or their related bodies corporate;
- are not professional advisers to ASX or a body corporate that operates another financial market, or their related bodies corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a participant of ASX or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's business.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined by ASX as the sole member of SEGC.

The directors provide details of their current outside interests on appointment and advise of any change to those interests at each Board meeting. Where it is considered that a director has a material personal interest it is noted and where appropriate the director absents himself for that item. That decision is minuted.

In view of the size of the SEGC, the directors consider it is not necessary for it to have an audit and risk committee.

As SEGC is not a listed entity, the above statement is not intended to be a disclosure of corporate governance practices in accordance with the recommendations of the ASX Corporate Governance Council.

ADMINISTRATION OF SEGC

SEGC's staff, premises and equipment are provided by ASX Operations Pty Ltd, which also provides accounting and other administrative services to SEGC on a commercial basis. The costs are borne by ASX Operations Pty Ltd and are reimbursed by SEGC.

ASX staff on secondment acknowledge that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Michael Bradwell (LLM, BCom, Grad Dip CSA) and **Paul Baranov (LLB, Grad Dip Fin Mgt, FCIS)** are the Company Secretaries and Legal Counsel of SEGC.

The appointment of the Company Secretaries is approved by the SEGC board.

CLAIMS REPORT

Claims processing procedure

The types of claims which can be made on the NGF are set out in the Overview section.

In general, SEGC processes claims by clients of Dealers in the following way:

- **Notification:** The Dealer whose alleged conduct or default has prompted the claim is notified of the claim, so that it may consider action to settle the claim (either directly with the claimant or via SEGC) and where appropriate, notify its insurer. During the processing of the claim, SEGC attempts as far as possible to facilitate settlement between the claimant and the Dealer.
- **Further information:** SEGC will check that the claim meets the relevant criteria. SEGC may seek information from Dealers, registries, liquidators, ASX and ASX Clear, as well as from the claimant. Under the Corporations Act, SEGC has power to require the production of documents and other information relevant to a claim.
- **Consideration of time limit:** If the claim has been made outside the time limit specified in the Corporations Regulations, the Board determines whether the circumstances are such that the time period for making the claim should be extended. If the Board does not extend the time for making the claim, the claim is barred. In general, the time limit for claims is six months commencing from the time of the relevant event or from the time the claimant became aware of the loss, depending on the category of claim. In some cases, SEGC may publish a notice specifying another time limit.
- **Determination:** The Board determines whether to allow or disallow claims made within the time limit and claims for which the Board has extended the time limit. If a claim is allowed, the claimant is provided with replacement securities and/or money.
- **Recovery:** The Corporations Act provides that if a claim is allowed, SEGC is subrogated to all the claimant's rights and remedies in relation to the conduct the subject of the claim. SEGC stands in the claimant's shoes and can seek recovery from the Dealer, and in appropriate cases other parties. Potential recoveries are pursued where appropriate to mitigate loss to the NGF.

Claims processed in the current year

SEGC considered and determined a significant number of claims during the financial year, most of which related to the collapse of Opes Prime Stockbroking Limited. None of the claims that were determined by SEGC during the financial year were allowed.

The disallowance of claims on the NGF by former clients of Opes Prime relates to the nature of the legal arrangements between Opes Prime and its clients. Opes Prime provided what have been characterised as “non-

standard margin lending facilities”¹ to its clients under a Securities Lending and Borrowing Agreement. Under this agreement, unencumbered title in securities and collateral passed from the original owner to Opes Prime on delivery². The economic effect of these arrangements was similar to a standard margin lending facility, but the important legal difference was that with the Opes Prime facilities, clients transferred all legal and beneficial interest in securities and collateral to Opes Prime.

In these circumstances, it has been difficult for claims by former clients of Opes Prime to meet the criteria of the claims regime, as outlined above.

The number of claims received and the complex factual circumstances have required a substantial amount of time to gather and assess information in order to ensure that each claimant's circumstances were presented to the Board in an appropriate manner.

A number of other claims in relation to Opes Prime and other dealers are being considered by SEGC.

As at the reporting date it is not possible to estimate whether any of the outstanding claims will be substantiated and the Directors do not believe that any provision needs to be made in relation to them at this time.

Appeals against disallowed claims

The Corporations Act provides that if the Board disallows a claim, the claimant may appeal by bringing legal proceedings within 3 months of notice of the disallowance of the claim, seeking an order directing the Board to allow the claim.

No proceedings were commenced against SEGC during the financial year in respect of any disallowed claims. Two appeals were lodged after the end of the financial year pursuant to the appeal provisions in the Corporations Act and are currently before the court.

¹ See ASIC Consultation Paper 129 *Non-standard margin lending facilities: Improving disclosure for retail clients* December 2009 at p. 7. See also the November 2009 report of the Parliamentary Joint Committee on Corporations and Financial Services *Inquiry into Financial Products and Services in Australia* at pp. 53-54 for a discussion of the Opes Prime business model.

² *Beconwood Securities Pty Limited and Anor v Australia and New Zealand Banking Group Limited and Ors* (2008) 246 ALR 361 at paragraph 50.

*Securities Exchanges Guarantee Corporation Limited Financial Report
for the Year Ended 30 June 2010*

**SECURITIES EXCHANGES GUARANTEE
CORPORATION LIMITED**

ABN 19 008 626 793

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2010

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**Directors' Report**

The directors present their report together with the financial statements of Securities Exchanges Guarantee Corporation Limited ("SEGC" or the "Company") for the year ended 30 June 2010 and the auditor's report thereon.

Directors

The following persons were directors of SEGC during the financial year and up until the date of this report:

Clive Michael Batrouney (Chairman);
Susan Doyle;
Fergus Allan McDonald;
Peter Hastings Warne

Michael John Sharpe was a director until his retirement on 30 June 2010.

Ian William Thoburn McGaw was appointed a director on 1 July 2010 and remains in office at the date of this report.

Principal activity

SEGC is a statutory trustee and holds the assets of the National Guarantee Fund ("NGF" or the "Fund") on trust for the purposes set out in the provisions of Part 7.5 of the *Corporations Act 2001* and the *Corporations Regulations 2001*. It administers the NGF in accordance with those provisions.

Review and results of operations

SEGC did not trade in its own right during the financial year.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of SEGC during the financial year in review.

Environmental regulation and performance

The directors of SEGC are not aware of any significant material environmental incidents arising from the operations of SEGC during the financial year.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations, the results of those operations, or the state of affairs of SEGC.

Indemnification and insurance of officers

Since the end of the previous financial year, the entity has paid an insurance premium in respect of directors' and officers' liability insurance for current and former officers of SEGC.

The officers of SEGC covered by the insurance include the directors referred to earlier in this report and company secretaries, Paul Baranov and Michael Bradwell.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The constitution of SEGC provides that, to the extent permitted by law, the officers of SEGC are indemnified against any liability incurred in that capacity being a liability:

- to a person other than SEGC or a related body corporate, unless the liability involves a lack of good faith or is contrary to SEGC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the *Corporations Act 2001*.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**Directors' Report**

Corporate governance

The Board of SEGC consists of five non-executive directors. ASX Limited (ASXL), as the sole member of SEGC, appoints two directors and those directors appoint three independent directors who:

- are not a partner, director, officer or employee of a participant of ASXL;
- are not a director, officer or employee of ASXL or a body corporate that operates another financial market, or their related bodies corporate;
- are not professional advisers to ASXL or a body corporate that operates another financial market, or their related bodies corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a participant of ASXL or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the board. Directors' remuneration is determined by ASXL as the sole member of SEGC.

Staff of ASX Operations Pty Limited (ASXO), a controlled entity of ASXL, are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. Seconded staff acknowledge that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASXL and SEGC.

Administration and accounting services are provided by ASXO. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASXL and its controlled entities.

The amounts paid to the auditor of SEGC and NGF, PricewaterhouseCoopers, for audit and review of the financial statements during the year are set out in Note 5.

Auditor Independence

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included on page 5.

Dated at Sydney this 30th of August 2010.

Signed in accordance with a resolution of the directors:



C M Batrouney
Chairman

PricewaterhouseCoopers
ABN 52 780 433 757

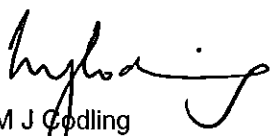
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Auditor's Independence Declaration

As lead auditor for the audit of Securities Exchanges Guarantee Corporation Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Securities Exchanges Guarantee Corporation Limited during the period.


M J Codling
Partner
PricewaterhouseCoopers

Sydney
30 August 2010

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**Financial Statements**

	2010 \$	2009 \$
Statement of Comprehensive Income		
For the year ended 30 June 2010		
Total Comprehensive Income	-	-
Balance Sheet		
As at 30 June 2010		
Net assets	-	-
Total equity	-	-
Statement of Changes in Equity		
For the year ended 30 June 2010		
Opening balance		
Closing balance	-	-
Statement of Cash Flows		
For the year ended 30 June 2010		
Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Cash flows from financing activities	-	-
Net increase in cash held	-	-
Cash at the beginning of the financial year	-	-
Cash at the end of the financial year	-	-

The Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Notes to the Financial Statements

1. Securities Exchanges Guarantee Corporation Limited

Securities Exchanges Guarantee Corporation Limited ("SEGC") is incorporated in the Australian Capital Territory as a company limited by guarantee with the sole purpose of administering the National Guarantee Fund ("NGF" or the "Fund"). SEGC does not trade in its own right.

The financial statements were authorised for issue by the directors on 30 August 2010.

ASXL, as the only member of SEGC, undertakes to contribute an amount not exceeding \$1,000 to the assets of SEGC in the event of SEGC being wound up. This undertaking is provided whilst ASXL is a member or within one year after it ceases to be a member, for payment of the debts and liabilities of SEGC that are contracted before ASXL's membership ceases, for the payment of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves.

As set out in section 889C(2) of the *Corporations Act 2001*, the assets of NGF are the property of SEGC but are held on trust for the purposes set out in Part 7.5 of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

2. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001*. The financial statements of SEGC also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the basis of historical cost. Items included in SEGC's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Australian dollars, which is SEGC's functional and presentation currency.

The accounting policies have been applied to all periods presented in these financial statements.

SEGC has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, SEGC had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

The following standards, amendments to standards and interpretations applicable to SEGC were available for early adoption but have not been applied in these financial statements:

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* addresses the classification and measurement requirements for financial assets. This will be applicable to the SEGC's 30 June 2014 financial statements; however, SEGC has not yet decided when to adopt AASB 9. The new standard would not have impacted the financial statements if applied in the current year.
- AASB 2009-5 *Further Amendments to Australian Accounting Standards* arising from the second annual improvements project will apply to SEGC's 30 June 2012 financial statements would not have affected SEGC if this standard was adopted in the current year.

3. Related party disclosures

Directors

The directors of SEGC during the financial year were:

Clive Michael Batrouney (Chairman);
Susan Doyle;
Fergus Allan McDonald;
Peter Hastings Warne

Michael John Sharpe AO was a director until his retirement on 30 June 2010. Mr Sharpe was appointed by ASXL and was also a director of ASXL until his retirement from the board of ASXL on 1 July 2009.

Ian McGaw was appointed a director by ASXL on 1 July 2010, and remains in office at the date of this report. Mr McGaw is the chairman of ASX Clear Pty Limited, a controlled entity of ASXL.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Notes to the Financial Statements

Peter Hastings Warne was appointed by ASXL and was also a director of ASXL during the full financial year ending 30 June 2010.

Related party transactions

During the year, SEGC incurred management fees of \$455,041 inclusive of GST (2009: \$310,730) in respect of staff, administration and accounting services provided by ASXO. As SEGC is the administrator of NGF, the fees were paid from the assets held by NGF in accordance with section 889H of the *Corporations Act 2001*.

4. Key Management Personnel compensation

The Key Management Personnel comprise the five Directors.

The Key Management Personnel compensation included in administration costs in the NGF's statement of comprehensive income are as follows:

	2010	2009
	\$	\$
Short-term employee benefits	150,000	150,000
Post-employment benefits (superannuation)	10,225	11,848
Total	160,225	161,848

Key Management Personnel compensation set out above comprise directors' fees and superannuation paid to the five directors of SEGC. The amounts were incurred by ASXO. In accordance with section 889H of the *Corporations Act 2001*, the above has been paid out of the NGF and reimbursed to ASXO.

5. Auditor's remuneration

	2010	2009
	\$	\$
Audit services:		
Audit and review of the financial statements for SEGC and NGF	11,000	11,000
Total	11,000	11,000

All the amounts shown above are exclusive of GST.

In accordance with section 889H of the *Corporations Act 2001*, the auditor's remuneration has been paid by the NGF.

There were no non-audit services provided by the auditor to SEGC or the NGF (2009: nil).

6. Segment reporting

SEGC consists of one operating segment. The Board of Directors of SEGC assesses the performance of SEGC as a single segment, which operates to administer the NGF as set out in the *Corporations Act 2001*. Information is presented in a manner that is consistent with the internal reporting provided to the Board of Directors of SEGC.

7. Subsequent events


No matter or circumstance has arisen since the end of the financial year to the date of this report which has significantly affected the operations, the results of those operations, or the state of affairs of SEGC.

SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED**Directors' Declaration**

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited ("SEGC"):

- a) the financial statements and notes of SEGC set out on pages 6 to 8 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of SEGC as at 30 June 2010 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that SEGC will be able to pay its debts as and when they become due and payable.
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Signed in accordance with a resolution of the directors:


C M Batrouney
Chairman

Sydney, 30th day of August 2010

PricewaterhouseCoopers
ABN 52 780 433 757

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Independent auditor's report to the members of Securities Exchanges Guarantee Corporation Limited

Report on the financial report

We have audited the accompanying financial report of Securities Exchanges Guarantee Corporation Limited (the company), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the company.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Liability limited by a scheme approved under Professional Standards Legislation

**Independent auditor's report to the members of
Securities Exchanges Guarantee Corporation Limited (continued)**

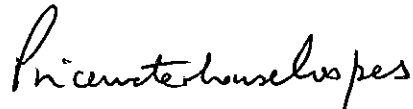
Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Securities Exchanges Guarantee Corporation Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.



PricewaterhouseCoopers



M J Coddling
Partner

Sydney
30 August 2010

*National Guarantee Fund Financial Report
for the Year Ended 30 June 2010*

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2010

NATIONAL GUARANTEE FUND

Trustees' Report

The directors of Securities Exchanges Guarantee Corporation Limited ("SEGC" or "the Trustee"), being the trustee of the National Guarantee Fund ("the NGF" or "the Fund"), present their report together with the financial statements for the year ended 30 June 2010 of the NGF and the auditor's report thereon.

Directors

The following persons were directors of Securities Exchanges Guarantee Corporation Limited, which administers the NGF, during the financial year and up until the date of this report:

Clive Michael Batrouney (Chairman);
 Susan Doyle;
 Fergus Allan McDonald;
 Peter Hastings Warne

Michael John Sharpe was a director until his retirement on 30 June 2010.

Ian William Thoburn McGaw was appointed a director on 1 July 2010 and remains in office at the date of this report.

Principal activity

SEGC is the statutory trustee of the NGF and holds the assets of the NGF on trust for the purposes set out in the provisions of Part 7.5 of the *Corporations Act 2001* and the *Corporations Regulations 2001*. It administers the NGF in accordance with those provisions.

The NGF's main function is to provide investor compensation in the circumstances set out in Part 7.5 of the *Corporations Act 2001*.

Review and results of operations

The net profit from ordinary activities of the NGF for the year was \$7,969,739 (2009: \$5,288,048), before distributions of \$1,930,196 (2009: \$1,865,352) to the Financial Industry Development Account ("FIDA") administered by ASX Limited ("ASXL") under Corporations Regulation 7.5.89.

The NGF received a number of claims during the financial year, and further claims were received subsequent to balance date. There were no claims paid or recovered during the year ended 30 June 2010.

Two claim appeals have been lodged with the court pursuant to the appeal mechanism in the *Corporations Act 2001*.

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the NGF during the financial year in review.

Environmental regulation and performance

The directors are not aware of any significant material environmental incidents arising from the operations of the NGF during the financial year.

Events subsequent to balance date

The NGF is subject to a minimum amount under the *Corporations Act 2001* ("the Minimum Amount") which is generally considered to be the minimum level of net assets required to be held by the NGF to meet claims and administration costs of SEGC and the NGF. The current Minimum Amount is \$76 million. As at the date of this report, an actuarial review is being conducted to assist the SEGC Board in its review of the Minimum Amount. The actuarial review has not been completed. Any determination by the Board of SEGC to change the Minimum Amount would be subject to approval by the Minister for Superannuation and Corporate Law (the "Minister").

Apart from the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations, the results of those operations, or the state of affairs of the NGF.

Indemnification and insurance of officers

Since the end of the previous financial year, the Fund has paid an insurance premium in respect of directors' and officers' liability insurance for current and former officers of SEGC.

NATIONAL GUARANTEE FUND

Trustees' Report

The officers of SEGC covered by the insurance include the directors referred to earlier in this report and company secretaries, Paul Baranov and Michael Bradwell.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The constitution of SEGC provides that, to the extent permitted by law, the officers of SEGC are indemnified against any liability incurred in that capacity being a liability:

- to a person other than SEGC or a related body corporate, unless the liability involves a lack of good faith or is contrary to SEGC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the *Corporations Act 2001*.

Corporate governance

The Board of SEGC consists of five non-executive directors. ASXL, as the sole member of SEGC, appoints two directors and those directors appoint three independent directors who:

- are not a partner, director, officer or employee of a participant of ASXL;
- are not a director, officer or employee of ASXL or a body corporate that operates another financial market, or their related bodies corporate;
- are not professional advisers to ASXL or a body corporate that operates another financial market, or their related bodies corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a participant of ASXL or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined by ASXL as the sole member of SEGC.

Staff of ASX Operations Pty Limited (ASXO), a wholly owned subsidiary of ASXL, are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. Seconded staff acknowledge that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASXL and SEGC.

Administration and accounting services are provided by ASXO. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASXL and its controlled entities.

The amounts paid to the auditor of the Fund, PricewaterhouseCoopers, for audit and review of the financial statements during the year are set out in Note 13.

Auditor independence

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is included on page 5.

Dated at Sydney this 30th of August 2010.

Signed in accordance with a resolution of the directors:



C M Batrouney

Chairman

PricewaterhouseCoopers
ABN 52 780 433 757


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Auditor's Independence Declaration

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the National Guarantee Fund during the period.


M J Cooling
Partner
PricewaterhouseCoopers

Sydney
30 August 2010

NATIONAL GUARANTEE FUND
Statement of Comprehensive Income
For the year ended 30 June 2010

		2010	2009
	Note	\$	\$
Revenue			
Net gains/(losses) on financial instruments held at fair value	15	3,412,132	(1,649,449)
Distributions	15	5,414,054	7,826,872
Interest income		530	940
Refund of imputation credits		20,930	33,177
Total revenue		8,847,646	6,211,540
Expenses			
Audit fees		11,000	11,000
Other expenses	16	866,907	912,492
Total expenses		877,907	923,492
Net profit for the period		7,969,739	5,288,048
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		7,969,739	5,288,048

The Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

NATIONAL GUARANTEE FUND
Balance Sheet
As at 30 June 2010

		2010	2009
	Note	\$	\$
Current assets			
Cash		975	181,156
Receivables	4	26,300	35,194
Prepayments	5	16,625	-
Other financial assets – investments	6	111,259,865	105,107,078
Total current assets		111,303,765	105,323,428
Total assets			
		111,303,765	105,323,428
Current liabilities			
Payables		99,600	28,600
Related party payable	11	205,245	335,451
Total current liabilities		304,845	364,051
Total liabilities			
		304,845	364,051
Net assets			
		110,998,920	104,959,377
Equity			
Retained earnings		110,998,920	104,959,377
Total funds		110,998,920	104,959,377

The Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

NATIONAL GUARANTEE FUND
Statement of Changes in Equity
For the year ended 30 June 2010

		2010	2009
	Note	\$	\$
Opening balance		104,959,377	101,536,681
Distributions to Financial Industry Development Account (FIDA)	3	(1,930,196)	(1,865,352)
Total comprehensive income for the year		7,969,739	5,288,048
Closing balance		110,998,920	104,959,377

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

NATIONAL GUARANTEE FUND
Statement of Cash Flows
For the year ended 30 June 2010

		2010	2009
	Note	\$	\$
Cash flows from operating activities			
Proceeds from the disposal of investments		2,673,398	2,764,295
Investment distribution income received		5,414,054	7,826,871
Reinvestment of distribution income		(5,414,054)	(7,826,871)
Imputation credits/BAS refunds		29,824	28,128
Interest received – other		530	940
Payments to suppliers		(953,737)	(747,607)
Net cash provided by operating activities	10	1,750,015	2,045,756
Cash flows from investing activities			
		-	-
Cash flows from financing activities			
Distributions to FIDA	3	(1,930,196)	(1,865,352)
Net cash (used in) financing activities		(1,930,196)	(1,865,352)
Net (decrease)/increase in cash held		(180,181)	180,404
Cash at the beginning of the financial year		181,156	752
Cash at the end of the financial year		975	181,156

Definition of cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank. The cash balance at year-end reflects the balance in the bank account. In addition, both the UBS Cash Plus Fund and Schroders Fixed Income Fund (Other financial assets – investments) can be called upon to fund working capital requirements as required.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

1. Securities Exchanges Guarantee Corporation Limited

Securities Exchanges Guarantee Corporation Limited ("SEGC" or "the Trustee") is incorporated in the Australian Capital Territory as a company limited by guarantee with the sole purpose of administering the National Guarantee Fund ("the NGF" or "the Fund"). SEGC does not trade in its own right.

ASXL, as the only member of SEGC, undertakes to contribute an amount not exceeding \$1,000 to the assets of SEGC in the event of SEGC being wound up. This undertaking is provided whilst ASXL is a member or within one year after it ceases to be a member, for payment of the debts and liabilities of SEGC that are contracted before ASXL's membership ceases, for the payment of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves.

As set out in section 889C(2) of the *Corporations Act 2001*, the assets of the Fund are the property of SEGC but are held on trust for the purposes set out in Part 7.5 of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

The financial statements were authorised for issuance by the directors on 30 August 2010.

2. Statement of significant accounting policies

The significant policies that have been adopted by the Fund in the preparation of these financial statements are:

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001*. The financial statements of the Fund also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the basis of historical costs except for investments, which have been recognised at fair value. Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

The accounting policies have been applied to all periods presented in these financial statements.

The Fund has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Fund had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

The following standards, amendments to standards and interpretations applicable to the Fund were available for early adoption but have not been applied in these financial statements:

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013) address the classification and measurement requirements for financial assets. The Fund has yet to assess their full impact, however, initial indications are that they will not have a significant effect on the financial statements. This will be applicable to the Fund's 30 June 2014 financial statements, however, the Fund has not yet decided when to adopt AASB 9.
- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 5, 8, 101, 107, 117, 118, 136 and 139] (effective from 1 January 2010). In May 2009, the AASB issued a number of improvements to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 8 *Operating Segments*, AASB 101 *Presentation of Financial Statements*, AASB 101 *Statement of Cash Flows*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 136 *Impairment of Assets* and AASB 139 *Financial Instruments: Recognition and Measurement*. The amendments would not have materially affected the Fund if they had been adopted in the current financial year. They will be applicable to the Fund's 30 June 2011 financial statements.

b) Segment reporting

The Fund has adopted AASB 8 *Segment Reporting* from 1 July 2009, which requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Information for the single segment, being the Fund, is presented in a manner that is consistent with the internal reporting provided to the chief operating decision maker, who has been identified as the Board of Directors of SEGC, as trustee of the NGF.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

c) Revenue recognition

Movements in fair value of investment units

Investments in units are classified as financial assets at fair value through profit or loss and are stated at fair value in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. Gains and losses that result from adjusting the fair values of investment units in managed funds are included as revenue in the Statement of Comprehensive Income.

Distribution revenue

Distribution revenue from investments is recognised as it is earned.

Interest revenue

Interest revenue on cash at bank is recognised as it is earned.

Refund of imputation credits

The Australian Taxation Office (ATO) endorsed the Fund as an income tax exempt charitable entity. As a result, imputation credits arising from distributions received during the year have been recognised as revenue. Imputation credits to be received at the end of the financial year are recognised as receivables.

d) Claims

Claims are recognised on an accruals basis when they are considered by the board as valid.

If SEGC allows a claim, SEGC is subrogated to the claimant's rights and remedies (section 892F of the *Corporations Act 2001*). Since no claims have been paid, no allowance has been made for potential recoveries from relevant brokers by SEGC upon the exercise of its rights of subrogation.

e) Income tax

No provision is made for income tax as the Fund has received notification from the ATO of endorsement as an income tax exempt charitable entity.

f) Units in managed funds

The investment funds of NGF are currently managed by two professional portfolio managers, UBS Global Asset Management (Australia) Limited and Schroders Investment Management Australia Limited. During the year the NGF's funds have been invested in the UBS Cash Plus Fund in cash or cash-like products and in the Schroders Fixed Income Fund in a diversified range of fixed income securities. They are held at fair value through profit or loss and are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition of these assets. Subsequent to initial recognition, they are measured at fair value with changes in their fair value recognised in profit or loss.

Fair values of these two portfolios are established by referring to redemption prices quoted by the two fund managers. The two fund managers are responsible for using the relevant market bid prices of underlying instruments in the portfolios at balance date to calculate the redemption prices in both funds.

g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Payments to FIDA are not subject to GST.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis.

h) Cash

For cash flow presentation purposes, cash includes cash deposits held with financial institutions.

i) Distributions to Financial Industry Development Account (FIDA)

Claims in relation to projects approved for FIDA funding are recognised as a liability of the Fund once the claim for payment has been submitted to and approved by the Board of Directors.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

j) Payables

These amounts represent liabilities for goods and services provided to the Fund prior to the end of the reporting period which are unpaid. The amounts, which are stated at amortised cost, are unsecured and are usually paid within 30 days of recognition.

3. Financial Industry Development Account (FIDA)

Sub-regulation 7.5.89(1) of the *Corporations Regulations 2001* confers on the Board of SEGC, being the administrator of the Fund, a discretion to pay amounts from the excess above the minimum amount (currently \$76 million), to ASXL to be held in FIDA under sub-regulation 7.5.89(3). Money in FIDA may only be used for purposes approved by the Minister under regulation 7.5.88 of the *Corporations Regulations 2001*. The amounts paid to FIDA during the financial year and the purposes with which those payments were connected are:

	2010	2009
	\$	\$
Investor education initiatives	1,683,929	1,865,352
Share ownership survey	246,267	-
	1,930,196	1,865,352

4. Receivables

	2010	2009
	\$	\$
Imputation credits receivable	20,930	33,177
Other receivables – GST	5,370	2,017
	26,300	35,194

5. Prepayments

	2010	2009
	\$	\$
Prepayments	16,625	-
	16,625	-

6. Other financial assets – investments

	2010	2009
	\$	\$
UBS Cash Plus Fund – at quoted redemption price	54,141,307	51,643,601
Schroders Fixed Income Fund – at quoted redemption price	57,118,558	53,463,477
	111,259,865	105,107,078

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

7. Commitments

The following table outlines all projects approved for FIDA funding by the Minister and not yet claimed. Sub-regulation 7.5.89(1) of the *Corporations Regulations 2001* confers on the Board of SEGC, being the administrator of the Fund, a discretion to pay amounts in excess of the minimum amount to the FIDA account to be used for purposes approved by the Minister. These amounts are yet to be approved by the Board of SEGC at balance date.

	2010	2009
Due:	\$	\$
Not later than one year	3,921,452	3,022,324
Later than one year but not later than five years	525,000	2,317,324
Total commitments	4,446,452	5,339,648

In addition, the Trustee is aware that an application has been made to the Minister for FIDA funding in respect of certain costs related to supervision activities that were transferred from the Australian Securities Exchange to the Australian Securities and Investments Commission on 1 August 2010. Payment of amounts under this request are expected to occur from excess funds held in the NGF in future periods following an applicable adjustment to the Corporations Regulations and approval from the Board of SEGC.

8. Contingent liabilities of the Fund

As at 30 June 2010 and up to the date of this report, the Trustee has concluded that there are no material contingent liabilities. The Fund has received a number of claims which are still being assessed for submission to the Directors of the Trustee for determination. There are two claims that are currently subject to appeal to the court pursuant to the appeal provisions in the *Corporations Act 2001*.

9. Segment reporting

The Fund consists of one operating segment. The board of directors of SEGC assesses the performance of the Fund as a single segment, which operates to provide compensation to meet certain types of claims arising from dealings with participants of ASXL and, in limited circumstances, participants of ASX Clear Pty Limited as set out in the *Corporations Act 2001* and *Corporations Regulations 2001*. Information for the Fund is presented in a manner that is consistent with the internal reporting provided to the Board of Directors of the Trustee of the NGF.

10. Notes to the Statements of Cash Flows of the Fund

	2010	2009
Reconciliation of the net profit to the net cash flows from operating activities:	\$	\$
Net profit for the period	7,969,739	5,288,048
(Increase) in investments	(6,152,787)	(3,413,128)
Decrease/(increase) in receivables	8,894	(5,049)
(Increase) in other prepayments	(16,625)	-
Increase in payables	71,000	3,100
(Decrease)/increase in related party payables	(130,206)	172,785
Net cash provided by operating activities	1,750,015	2,045,756

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

11. Related party disclosures

Directors

The directors of SEGC, being the administrator of the Fund, during the financial year were:

Clive Michael Batrouney (Chairman);
Susan Doyle;
Fergus Allan McDonald;
Peter Hastings Warne

Michael John Sharpe AO was a director until his retirement on 30 June 2010. Mr Sharpe was appointed by ASXL and was also a director of ASXL until his retirement from the Board of ASXL on 1 July 2009.

Ian William Thoburn McGaw was appointed a director by ASXL on 1 July 2010, and remains in office at the date of this report. Mr McGaw is the chairman of ASX Clear Pty Limited, a controlled entity of ASXL.

Peter Hastings Warne was appointed by ASXL and was also a director of ASXL during the full financial year ending 30 June 2010.

Related party transactions

During the year, SEGC incurred expenses on behalf of the NGF of \$455,041 inclusive of GST (2009: \$310,730) in respect of staff, administration, occupancy and accounting services provided by ASX Operations Pty Limited (ASXO). These fees were reimbursed by the NGF in accordance with section 889H of the *Corporations Act 2001*.

The balance owing to ASXO by SEGC at 30 June 2010 was \$205,245 (2009: \$335,451) which will be reimbursed by the NGF. No interest is charged by ASXO on the outstanding balance to SEGC or the NGF.

12. Key Management Personnel compensation

Key Management Personnel comprise the five Directors

Key Management Personnel compensation included in administration costs in the Statement of Comprehensive Income is as follows:

	2010	2009
	\$	\$
Short-term employee benefits	150,000	150,000
Post-employment benefits (superannuation)	10,225	11,848
Total	160,225	161,848

Key Management Personnel compensation set out above comprise directors' fees and superannuation paid to the five directors of SEGC. The amounts were initially incurred by ASXO. In accordance with section 889H of the *Corporations Act 2001*, these fees will be reimbursed by the NGF.

13. Auditor's remuneration

	2010	2009
	\$	\$
Audit services:		
Audit and review of the financial statements for SEGC and NGF	11,000	11,000
Total	11,000	11,000

All the amounts shown above are exclusive of GST.

In accordance with section 889H of the *Corporations Act 2001*, auditor's remuneration has been paid by the NGF.

There were no non-audit services provided by the auditor to the NGF or SEGC (2009: nil).

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

14. Financial instruments

a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rate, foreign exchange rates and other market prices. Interest rate risk, liquidity risk and foreign currency risk are covered below:

(i) Interest rate risk

The Fund has exposure to interest rate risk. Interest rate risk arises in relation to short-term deposits and cash at bank. The Fund's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below. 'Other financial assets – investments' comprise investment units in cash-based managed funds. Although they have significant exposure to interest rate risk, they are classified as non-interest bearing since the investments derive distribution income based on unit price. The interest rate risk is part of the overall market risk as it affects the investment valuations of these financial assets. The risk is managed through segregating the Fund into two portions in accordance with an investment strategy approved by the Board. Each portion is managed by a professional portfolio manager. One portion is invested in the UBS Cash Plus Fund in cash or cash-like products. The other portion is invested in the Schroders Fixed Income Fund in a diversified range of fixed income securities.

	Interest bearing		Non-Interest bearing		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash	975	181,156	-	-	975	181,156
Receivables	-	-	26,300	35,194	26,300	35,194
Prepayments	-	-	16,625	-	16,625	-
Other financial assets - investments	-	-	111,259,865	105,107,078	111,259,865	105,107,078
	975	181,156	111,302,790	105,142,272	111,303,765	105,323,428
Financial liabilities						
Payables	-	-	99,600	28,600	99,600	28,600
Related party payables	-	-	205,245	335,451	205,245	335,451
			304,845	364,051	304,845	364,051
Net financial assets	975	181,156	110,997,945	104,778,221	110,998,920	104,959,377

The annual average interest rate for interest bearing assets for the year was 3.17% (2009: 4.23%).

The average return of distributions from non-interest bearing financial assets - investments for the year was 8.73% (2009: 6.36%).

Fair value sensitivity analysis of interest bearing financial assets:

An increase/decrease of 25 basis points in interest rate would increase/decrease the Fund's annual profit and loss by \$2 (2009: \$453).

Fair value sensitivity analysis of non-interest bearing financial assets:

An increase/decrease of 25 basis points in investment redemption prices would increase/decrease the Fund's profit and loss by \$278,150 (2009: \$262,768).

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

(ii) Liquidity risk

Liquidity risk associated with the need to pay any claims, as determined by SEGC, is mitigated by investing in cash based funds. Both the UBS Cash Plus Fund and Schroders Fixed Income Fund (Other financial assets – investments) can be called upon to fund working capital requirements as required.

The following are the maturities of financial assets and liabilities with relevant maturity periods as at 30 June:

2010	Up to 1 mth \$	> 1 mth to 3 mths \$	Total \$
Current assets:			
Cash	975	-	975
Receivables	-	26,300	26,300
Prepayments	-	16,625	16,625
Other financial assets - investments	111,259,865	-	111,259,865
Current Liabilities:			
Payables	-	99,600	99,600
Related party payables	-	205,345	205,345
Net assets / (liabilities):	111,260,840	(262,020)	110,998,820

2009	Up to 1 mth \$	> 1 mth to 3 mths \$	Total \$
Current assets:			
Cash	181,156	-	181,156
Receivables	-	35,194	35,194
Other financial assets - investments	105,107,078	-	105,107,078
Current Liabilities:			
Payables	-	28,600	28,600
Related party payables	-	335,451	335,451
Net assets / (liabilities):	105,288,234	(328,857)	104,959,377

(iii) Foreign currency risk

The Fund has not had any exposure to foreign currency risk during the year ended 30 June 2010 (2009 : \$nil).

b) Credit risk

The Fund is exposed to credit risk, which represents the potential loss that may arise from the failure of a counterparty to meet its obligations to the Fund or its administrator, SEGC.

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk as at 30 June 2010 was:

	Note	2010	2009
		\$	\$
Cash		975	181,156
Receivables	4	26,300	35,194
Prepayments		16,625	-
Other financial assets - investments	5	111,259,865	105,107,078

Credit risk relating to investments in managed funds is managed by fund managers having credit limits for individual names in diversified portfolios. The Fund is invested in two portfolios in accordance with an investment strategy approved by the Board.

c) Capital management

The SEGC Board's policy is to maintain the assets of the fund at a level above the 'minimum amount' as prescribed in the *Corporations Act 2001* to meet claims and administration costs of SEGC and the NGF. The current 'minimum amount' as approved by the Minister is \$76 million.

The Board has an investment strategy in place to invest available financial assets, amounting to \$111,259,865, into two cash and fixed income funds managed by two professional portfolio managers respectively at 30 June 2010 in order to preserve the minimum fund requirement as prescribed above.

The Board monitors NGF by receiving and reviewing quarterly reports on the NGF from the two fund managers and a report on claims from the legal counsel at each Board meeting.

If the total fair value amount of the NGF falls below the 'minimum amount', the Board is able to take measures to manage the financial position, including taking insurance against claim liability, paying claims in instalments, external borrowing or imposing levies on ASXL or participants of ASXL. The Board has not yet taken any of the measures, or considered them to be necessary.

If the total fair value amount of the NGF exceeds the 'minimum amount', the Board has discretion to pay the excess or part of the excess to ASXL under a separate account designated as the Financial Industry Development Account (FIDA), with the approval of the Minister.

There were no changes to SEGC's approach in managing the 'minimum amount' of NGF during the year. However, an actuarial review is being conducted to assist the SEGC Board in its review of the 'minimum amount'. The actuarial review has not been completed. Any determination by the Board of SEGC to change the 'minimum amount' would be subject to approval by the Minister.

d) Fair value measurements

As of 1 July 2009, the Fund has adopted the amendment to AASB 7 *Financial Instruments: Disclosures*, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- i. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- ii. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- iii. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The below amounts, represent the Fund's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	2010
Other financial assets - investments	\$
UBS Cash Plus Fund – at quoted redemption price	54,141,307
Schroders Fixed Income Fund – at quoted redemption price	57,118,558
	111,259,865

NATIONAL GUARANTEE FUND

Notes to the Financial Statements

All of the Fund's assets and liabilities are measured as 'level 2' fair value hierarchy.

Fair values of investments are established by referring to redemption prices, as quoted by the two fund managers, which were based on the relevant market bid prices of underlying instruments in the portfolios at balance sheet date. As the fair values of the investments are not determined directly by reference to quoted prices in active markets, they are designated in Level 2 of the fair value hierarchy.

There are no financial instruments designated within level 1 or 3 of the fair value hierarchy as at 30 June 2010 and 30 June 2009.

15. Revenue

	2010	2009
	\$	\$
Net gains/(losses) on financial instruments held at fair value through profit or loss:		
Schroders Fixed Income Fund	1,695,306	1,044,500
UBS Cash Plus Fund	1,716,826	(2,693,949)
	3,412,132	(1,649,449)
Distributions:		
UBS Cash Plus Fund	1,917,047	3,943,508
Schroders Fixed Income Fund	3,497,007	3,883,364
	5,414,054	7,826,872

16. Expenses

	2010	2009
	\$	\$
Other expenses consist of:		
Staff cost	245,925	134,107
Legal cost	77,793	355,796
Administration cost	466,509	327,517
Occupancy cost	76,680	95,072
	866,907	912,492

17. Subsequent events

Apart from the actuarial review of the Minimum Amount as noted in the Director's Report, there is no matter or circumstance that has arisen since the end of the financial year to the date of this report which has significantly affected the operations, the results of those operations, or the state of affairs of the Fund.

NATIONAL GUARANTEE FUND

Declaration by directors of the trustee company

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited ("SEGC") as the Trustee for the National Guarantee Fund ("the NGF"):

- a) the financial statements and notes of the National Guarantee Fund ("the Fund") set out on pages 6 to 18 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of the Fund as at 30 June 2010 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- c) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(a).

Signed in accordance with a resolution of the directors:



C M Batrouney

Chairman

Sydney, 30th day of August 2010

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Independent auditor's report to the Trustee of National Guarantee Fund

Report on the financial report

We have audited the accompanying financial report of National Guarantee Fund (the Fund), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Fund.

Directors' responsibility for the financial report

The directors of Securities Exchanges Guarantee Corporation Limited (as Trustee for the Fund) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.



**Independent auditor's report to the Trustee of
National Guarantee Fund (continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of National Guarantee Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

A stylized, handwritten-style signature of the PricewaterhouseCoopers firm.

PricewaterhouseCoopers

A handwritten signature of M J Codling.

M J Codling
Partner

Sydney
30 August 2010

FURTHER INFORMATION

Further information about making claims on the NGF is contained in the NGF Information Booklet for clients which is available on SEGC's website at www.segc.com.au. A hard copy of the booklet is available from SEGC on request.

This annual report can also be found on SEGC's website.

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